

MUSKEGON HOUSING COMMISSION
MUSKEGON, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name MUSKEGON HOUSING COMMISSION	County MUSKEGON
Fiscal Year End SEPTEMBER 30, 2006	Opinion Date MARCH 22, 2007 January 26	Date Audit Report Submitted to State MARCH 13, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

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2 Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Report on Internal Controls and Compliance	
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC		Telephone Number (231) 946-8930	
Street Address 1107 E. Eighth Street		City Traverse City	State MI
Authorizing CPA Signature <i>Barry E. Gaudette</i>		Printed Name Barry E. Gaudette, CPA	Zip 49686
		License Number 11050	

MUSKEGON HOUSING COMMISSION
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INTRODUCTION

Independent Auditor's Report

Board of Commissioners
Muskegon Housing Commission
Muskegon, Michigan

I have audited the accompanying financial statements of the business-type activities of the Muskegon Housing Commission, Michigan, a stand-alone unit of the City of Muskegon, as of and for the year ended September 30, 2006, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Muskegon Housing Commission, Michigan, as of September 30, 2006, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Muskegon Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated January 26, 2007, on my consideration of Muskegon Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Muskegon Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Muskegon Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bary E. Tardiff, CPA

January 26, 2007

MUSKEGON HOUSING COMMISSION
MUSKEGON, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
September 30, 2006
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This discussion and analysis of the Muskegon Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the financial statements.

Entity-Wide Statements

The combined financial statements show, in one place, all of the Commission's operations. Our statements are prepared on the accrual basis of accounting, which is similar to that used by most businesses. Under this method, all revenues and expenses connected with the fiscal year are taken into account even if the cash involved has not actually been received or paid. The Financial Data Schedule included within the audit report contains all the programs of the Commission.

Fund Statements

The Financial Data Schedule reports the Commission's operations in more detail. The Commission reports all its activities using Proprietary Fund types. These funds are used to show activities that operate more like commercial enterprises. The Financial Data Schedule is organized by the government Catalogue of Financial Domestic Assistance (CFDA) numbers.

Entity-Wide Financial Highlights

The Commission was awarded the following Federal Assistance:

	<u>Year 2006</u>	<u>Year 2005</u>	<u>Difference</u>
Operating Subsidies	\$ 323,817	\$ 329,141	\$ (5,324)
Section 8 Housing Choice			
Vouchers	937,999	896,545	41,454
Capital Projects Funds	254,615	39,034	215,581

The Commission's cash position increased during the year; our fixed assets before depreciation decreased, our total liabilities decreased, and Net Assets decreased. The following represents the aforementioned positions:

Entity-Wide Financial Highlights - Continued

	<u>Year 2006</u>	<u>Year 2005</u>	<u>Difference</u>
Cash	\$ 1,087,319	\$ 902,885	\$ 184,434
Accounts Receivable/Other Assets	21,153	18,862	2,291
Fixed Assets, before Depreciation	6,690,203	6,396,537	293,666
Assets held for Sale	72,848	127,874	(55,026)
Total Liabilities	181,640	166,553	15,087
Net Assets	5,184,797	4,881,121	303,676

Significant changes in the above are as follows:

Our cash position increased as a result of a net profit prior to depreciation of \$269,131; our fixed assets before depreciation increased \$293,666 as a result of expending most of the 2004 Capital Fund Project in the current year. (See Capital Assets section below). Assets held for sale consists of Homeownership units; we sold three units during the fiscal year which accounts for the decrease of \$55,026. Our Net Assets increased by the amount of the net profit of \$58,880 and equity transfers of \$244,796.

	<u>Year 2006</u>	<u>Year 2005</u>	<u>Difference</u>
Revenues:			
Tenant Revenues	\$ 332,224	\$ 335,083	\$ (2,859)
HUD Grants	1,516,431	1,264,720	251,711
Other income	68,404	74,446	(6,042)
Expenses:			
Administrative	443,469	353,043	90,426
Utilities	197,441	208,249	(10,808)
Maintenance & Operations	144,278	159,574	(15,296)
Protective Services	93,937	93,098	839
General Expenses	64,097	50,126	13,971
Housing Assistance Payments	702,624	726,793	(24,169)
Depreciation Expenses	219,251	170,738	48,513

Significant changes in the above are as follows:

HUD grants are a result of requisitioning eligible funds. HUD grants received are a result of calculations under the Performance Funding System, and Capital grants authorized and obligated during the year, and the Housing Choice Voucher Assistance Payments. The majority of the change is the result of an increase in Capital Fund Program(CFP) expenditures by \$215,581. This was the result of completing the 2004 CFP.

Entity-Wide Financial Highlights - Continued

Our Administrative cost increased as a result of adding a staff position for our Section 8 program and a Section Family Self Sufficiency(FSS) position. Maintenance and operations decreased primarily because we eliminated a custodial position. General expenses increased as a result of an adjustment to our prepaid insurance expense to reflect capitalization of workman's compensation premiums and an increase in insurance cost.

Housing Assistance payments decreased as a result of normal changes after tenant recertification's. Depreciation expense increased from closing the 2002 and 2003 CFP programs; assets under construction are now subject to depreciation.

As a percentage of the total, no other line items are significantly changed.

The Commission provided the following housing for low to moderately low income families:

	<u>Year 2006</u>	<u>Year 2005</u>
Low Rent Public Housing	166	166
Home Ownership Program	1	4
Section 8 Housing Choice Vouchers	164	164

General Fund Budgetary Highlights

The Commission approved an operating budget on December 5, 2005; the significant differences from budget to actual are as follows:

<u>Line Item</u>	<u>Budget</u>	<u>Actual</u>
Interest Income	\$ 12,000	\$ 21,636
Electricity	129,350	105,319

Interest rates have increased steadily over the past year; our investments have increased slightly, therefore the actual results were better than our budget estimates. Our budgeted utility cost is based on a rolling three year average as prescribed by HUD; energy efficient improvements made to our building in the past three years including lights, an energy panel, and new appliances have resulted in a decrease in our actual cost.

Entity Wide Capital Assets

Our capital assets before depreciation increased \$293,666; this was from the completion of the kitchen renovations, approximately \$147,900, installing a new energy panel, \$14,200, and installation of a security system with architect fees, \$50,000. We closed out the 2002 and 2003 CFP program which was a part of the total assets in both the 2005 and 2006 totals, however, the assets became eligible for depreciation, which increase depreciation expense from \$170,738 to \$219,251.

Commission's Position

The Commission expects to continue to provide safe, sanitary and decent housing for the low and moderately low income families. We intend to use the 2006 CFP of \$175,928 to renovate approximately 13 more units (\$86,555), increase security by installing floor cameras (\$35,155), upgrade roof top exhaust fans (\$9,000), and augment operations by approximately \$45,218.

The Commission is concerned with the increase in Federal unfunded mandates such as project based accounting, asset management, and uncertainty in future funding with the new subsidy calculations and cuts in other federal programs. HUD has mandated mixed populations in our senior highrise; this concept has proven to be costly and disruptive - our senior base has diminished and the young disabled bring on additional administrative considerations - because of the age difference and normal living habits, the young and old have difficulty living in such a close proximity; we will continue to try to balance the interest of both. We have been working with the tenants to re-initiate a resident counsel which could assist in resolving tenant issues within the building.

The Commission is also interested in acquiring another homeownership program if funding is available; we have vacant land available to construct several units and would be willing to work with HUD and the city to develop much needed 2 and 3 bedroom homes.

Questions and comments to the above may be addressed to:

Yvonne Morrissey, Executive Director
Muskegon Housing Commission
Muskegon, MI 49442

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MUSKEGON HOUSING COMMISSION
STATEMENT OF NET ASSETS
September 30, 2006
=====

ASSETS

Current Assets:

Cash	\$ 1,055,790
Accounts receivable-HUD	972
Accounts receivable-tenants	17,290
Allowance for doubtful accounts	(736)
Mortgages receivable-current portion	3,627
Investments-unrestricted	64,049
Prepaid expenses	7,512
Inventories	<u>65,336</u>

Total Current Assets	<u>1,213,840</u>
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Restricted cash	<u>31,529</u>
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Capital Assets:

Land	225,606
Buildings	5,879,760
Equipment	323,352
Building improvements	<u>261,485</u>
	6,690,203
Less: accumulated depreciation	<u>(2,619,135)</u>

Net Capital Assets	<u>4,071,068</u>
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Other Assets:

Mortgages receivable-noncurrent portion	<u>50,000</u>
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Total Assets	<u><u>\$ 5,366,437</u></u>
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See notes to financial statements

MUSKEGON HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2006
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LIABILITIES and NET ASSETS

Current Liabilities:

Accounts payable	\$ 34,198
Tenant security deposit liability	43,857
Accrued expenses	6,047
Deferred revenues	7,047
Other current liabilities	<u>36,071</u>

Total Current Liabilities 127,220

Noncurrent Liabilities:

Accrued compensated absences	<u>54,420</u>
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Total Liabilities 181,640

Net Assets:

Invested in capital assets	4,071,068
Unrestricted net assets	<u>1,113,729</u>

Total Net Assets 5,184,797

Total Liabilities and Net Assets \$ 5,366,437

See notes to financial statements

MUSKEGON HOUSING COMMISSION
STATEMENT OF ACTIVITIES
Year Ended September 30, 2006
=====

OPERATING REVENUES:

Dwelling rent	\$ 330,287
Non-dwelling rent	<u>1,937</u>

Total operating revenues	<u>332,224</u>
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OPERATING EXPENSES:

Administration	443,469
Tenant services	892
Utilities	197,441
Ordinary maintenance and operation	144,278
Protective services	93,937
General expenses	64,097
Extraordinary maintenance	1,190
Housing assistance payments	702,624
Depreciation	<u>210,251</u>

Total operating expenses	<u>1,858,179</u>
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Operating income(loss)	<u>(1,525,955)</u>
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NONOPERATING REVENUES:

Investment interest income	41,747
Other income	21,636
Gain on sale of fixed assets	5,021
Capital grants	254,615
Operating grants	<u>1,261,816</u>

Total nonoperating revenues	<u>1,584,835</u>
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Change in net assets	58,880
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Prior period adjustments, equity transfers and correction of errors	244,796
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Net assets, beginning	<u>4,881,121</u>
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Net assets, ending	<u>\$ 5,184,797</u>
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See notes to financial statements

MUSKEGON HOUSING COMMISSION
STATEMENT OF CASH FLOWS
Year Ended September 30, 2006
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CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 326,799
Cash payments to other suppliers of goods and services	(1,255,495)
Cash payments to employees for services	(345,606)
Cash payments for in lieu of taxes	<u>(7,006)</u>
Net cash (used) by operating activities	<u>(1,281,308)</u>

CASH FLOWS FROM NONCAPITAL

FINANCING ACTIVITIES:

Adjustments	73,217
Tenant security deposits	1,357
Operating grants	1,261,816
Other revenue	<u>21,636</u>
Net cash provided by noncapital financing activities	<u>1,358,026</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds from mortgage payments	2,780
Proceeds from sale of inventories	62,538
Gain on sale of fixed assets	5,021
Capital grants	260,513
Payments for capital acquisitions	<u>(293,666)</u>
Net cash provided by capital and related financing activities	<u>37,186</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Certificates of deposits increased	(2,029)
Receipts of interest and dividends	<u>41,747</u>
Net cash provided by investing activities	<u>39,718</u>

Net increase(decrease) in cash	153,622
Cash, beginning	<u>933,697</u>
Cash, ending	<u>\$ 1,087,319</u>

MUSKEGON HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended September 30, 2006
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RECONCILIATION OF CASH AND CASH EQUIVALENTS
PER STATEMENT OF CASH FLOWS TO THE BALANCE
SHEET:

Cash	\$ 1,055,790
Restricted cash	<u>31,529</u>
Cash and cash equivalents per balance sheet	<u>\$ 1,087,319</u>

SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:

Operating income(loss)	\$(1,525,955)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	210,251
Bad debt allowance	521
Adjustments	(5,789)
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	(4,620)
Prepaid expenses	8,412
Increase (decrease) in liabilities:	
Accrued compensated absences	28,585
Accounts payable-PILOT	8,092
Deferred revenues	<u>(805)</u>
Net cash (used) by operating activities	<u>\$(1,281,308)</u>

See notes to financial statements

MUSKEGON HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
September 30, 2006
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Muskegon Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

The Muskegon Housing Commission is a stand-alone governmental unit, in accordance with GASBS-14, of the City of Muskegon, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Muskegon on May 25, 1965, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Muskegon Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3013, the Housing Commission constructed, maintains and operates 166 units of subsidized housing in the City of Muskegon, Michigan. The Housing Commission manages a Housing Choice Voucher program of subsidies for 165 qualifying low-income residents for rental housing. The Housing Commission receives an annual operating subsidy determined under a performance formula for units owned by the Housing Commission and under the Housing Choice Voucher program the Housing Commission receives a HAP allocation in addition to administrative fees based on the number of households it assists.

Fund Financial Statements

The Housing Commission only has business-type activities, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Activities and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund, consisting of three different programs, and does not have any governmental activities.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net asset components. Operating statements present increases(revenues) and decreases(expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Muskegon Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Inventory

Inventory is priced using the average of cost method and consists of vacant lots and materials.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$1,000 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	40 years
Equipment and furnishings	5 - 10 years
Building improvements	10 - 15 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post-FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services. Amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested capital

assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation leave is not cumulative (unless approved in advance by the Director) and shall be taken during the calendar year following the one in which it was earned unless conditions render it impossible, all employees shall take their vacation. If unused vacation time is not taken as directed, the unused vacation time will be forfeited as of December 31 of that year and may not be carried over into the next succeeding year.
- * Sick leave: All permanent full-time employees will accumulate sick leave at the rate of one (1) day for each thirty (30) calendar days of service. Sick leave without pay may be accumulated without limit. An employee is eligible to receive fifty per cent (50%) of his/her accrued sick leave, with payment made at that employee's current rate of pay.
- * Personal leave days: Each employee is entitled to two (2) personal leave time shall be taken subject to notice at least 24 hours in advance of the date requested. Personal leave days may not be accumulated and, if not used within a calendar year, will be forfeited.

The amount of accumulated benefits at September 30, 2006, was \$60,476, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a stand-alone unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK

The Housing Commission maintains cash and investment accounts in the Low Rent Program and Housing Choice Voucher funds. Landlord checks are processed through the Housing Choice Voucher account. All other receipts and disbursements are processed through the Low Rent Program accounts.

Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$1,055,688 and the bank balance was \$1,109,593 of which \$1,109,593 was covered by federal depository insurance and collateral agreements. The Housing Commission also has \$102 in petty cash and a restricted cash account for FSS escrow deposits of \$31,529, respectively, which is also covered by federal depository insurance and collateral agreements.

Investments

The Housing Commission had the following investments in certificates of deposit as September 30, 2006:

National City Bank (CD #2075868055)	\$ 18,694
National City Bank (CD #2075868259)	42,566
Huntington Bank (Savings #01171119395)	<u>2,789</u>
	<u>\$ 64,049</u>

Interest Rate Risk - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain

collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

- | | | |
|-------------------------------------|---|----------|
| 1. U.S. Treasury Notes | - | 100%; or |
| 2. U.S. Treasury Notes and/or Bonds | - | 75% and |
| 3. Mortgage Backed Securities | - | 25% |

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the statement of net assets is as follows:

Cash on hand	\$ 102
Carrying amount of deposits	1,055,688
Restricted cash	31,529
Investments	<u>64,049</u>
Total	<u>\$ 1,151,368</u>
Cash and cash equivalents:	
Enterprise activities	\$ 1,205,273
Enterprise activities - checks written in excess of deposits	<u>(53,905)</u>
Total	<u>\$ 1,151,368</u>

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At September 30, 2006, the receivables were \$17,290 with \$736 estimated as uncollectible. Bad debt expense was \$8,357.

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Low Rent Program	\$138,799	Housing Choice Voucher Program	\$137,827
		Capital Fund Program	<u>927</u>
	<u>\$138,799</u>		<u>\$138,799</u>

The capital fund program did not make any operating transfers to the Low Rent Program during the fiscal year ended September 30, 2006.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2006 was as follows:

	<u>Balance 09/30/05</u>	<u>Additions/Retirements/ Transfers</u>	<u>Balance 09/30/06</u>
Low Rent Program			
Land	\$ 219,000	\$ 6,606	\$ 225,606
Buildings	5,446,371	433,389	5,879,760
Furniture, equip. & machinery - dwellings	42,932		42,932
Furniture, equip. & machinery - administration	<u>270,175</u>		<u>270,175</u>
	5,978,478	<u>\$ 439,995</u>	6,418,473
Less accumulated depreciation	<u>(2,569,137)</u>	<u>\$ (210,251)</u>	<u>(2,608,890)</u>
Total	<u>\$3,409,341</u>		<u>\$3,809,583</u>
Capital Fund Program			
Building improvements	<u>\$ 407,814</u>	<u>\$ 261,485</u>	<u>\$ 261,485</u>

	<u>Balance</u> <u>09/30/05</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Balance</u> <u>09/30/06</u>
Housing Choice Voucher Program			
Furniture, equip. and machinery- dwellings	\$ 10,245	\$	\$ 10,245
	10,245	\$	10,245
Less accumulated depreciation	(10,245)	\$	(10,245)
Total	\$		\$
Combined Totals			<u>\$4,071,068</u>

NOTE 5: INVESTED IN CAPITAL ASSETS

Changes in invested in capital assets in the enterprise fund type for the year ended September 30, 2006, consist of the following:

	<u>Invested in Capital Assets</u>
Balance, beginning	\$ 3,817,155
Investment in fixed assets, net of depreciation paid for from operations net of depreciation.	<u>253,913</u>
Balance, ending	<u>\$ 4,071,068</u>

These reclassifications are investments in fixed assets, net of depreciation paid for from operations.

NOTE 6: OTHER INFORMATION

A. Pension Plan

The Muskegon Housing Commission participates in a pension plan, the Municipal Employees' Retirement System, (MERS). MERS is a Defined Benefit Program which operates within the Michigan Department of Management and Budget, Bureau of Retirement Systems. The pension covers all eligible full-time employees and requires a minimum contribution by the employee. At December 31, 2005, the date of the last completed actuarial evaluation, the Housing commission's actuarial accrued liability for retirement benefits is \$315,663. The valuation assets available to meet this obligation are \$221,547. There is an unfunded balance of \$94,116 as of December 31, 2005. The required employer contribution is \$21,456 to meet the normal cost and the unfunded accrued liability. The minimum

required monthly employer contribution as a percentage of payroll is 10.12% for general employees. There are seven active members, no vested former members, and no retirees and beneficiaries. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual report.

B. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

D. Prior Period Adjustments, Equity Transfers and Correction of Errors

Low Rent Program

Voided checks from prior year	\$ 10,895
Reclass houses for sale from fixed assets	170,499
Correction of 2001 cfp transfer in prior year	73,216
To adjust beginning prepaid insurance	<u>(16,416)</u>
	<u>\$ 238,194</u>

Capital Fund Program

Correction of 2001 cfp advances	\$ 6,870
Transfer to low rent	<u>(407,814)</u>
	<u>\$ (400,944)</u>

Housing Choice Vouchers

Unknown difference	<u>\$ (268)</u>
--------------------	------------------

NOTE 7: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes three separate programs which provide housing assistance and grant programs. Segment information for the year ended September 30, 2006, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers</u>
Condensed Statement of Net Assets			
Current assets	\$ 952,459	\$ 972	\$ 399,208
Restricted cash			31,529
Capital assets	3,809,583	261,485	
Other assets	50,000		
Total assets	<u>\$ 4,812,042</u>	<u>\$ 262,457</u>	<u>\$ 430,737</u>
Current liabilities	\$ 96,784	\$ 972	\$ 168,263
Noncurrent liabilities	54,429		
Total liabilities	<u>151,213</u>	<u>972</u>	<u>168,263</u>
Net assets:			
Invested in capital assets	3,809,583	261,485	
Unrestricted net assets	851,255		262,474
Total net assets	<u>4,660,838</u>	<u>261,485</u>	<u>262,474</u>
Total liabilities & net assets	<u>\$ 4,812,051</u>	<u>\$ 262,457</u>	<u>\$ 430,737</u>
Condensed Statement of Activities			
Dwelling and nondwelling rents	\$ 332,224	\$	\$
Depreciation	(210,251)		
Other operating expenses	(746,138)		(901,790)
Operating(loss)	<u>(624,165)</u>		<u>(901,790)</u>
Nonoperating revenues:			
Gain on sale of fixed assets	5,021		
Investment earnings	33,891		7,856
Other income	21,636		
Operating grants	323,817		937,999
Capital grants		254,615	
Change in net assets	(239,800)	254,615	44,065
Prior period adjustments	646,008	(400,944)	(268)
Beginning net assets	<u>4,254,630</u>	<u>407,814</u>	<u>218,677</u>
Ending net assets	<u>\$ 4,660,838</u>	<u>\$ 261,485</u>	<u>\$ 262,474</u>

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers</u>
Condensed Statement of Cash Flows			
Net cash provided(used) by:			
Operating activities	\$(379,250)	\$	\$(902,058)
Noncapital financing activities	303,370	972	1,053,684
Capital and related financing activities	38,158	(972)	
Investing activities	<u>31,862</u>		<u>7,856</u>
Net increase(decrease)	(5,860)		159,482
Beginning cash and cash equivalents	<u>662,442</u>		<u>271,255</u>
Ending cash and cash equivalents	<u>\$ 656,582</u>	<u>\$</u>	<u>\$ 430,737</u>

SUPPLEMENTARY INFORMATION

MUSKEGON HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
September 30, 2006
=====

	C-3013 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
ASSETS		
Current assets:		
Cash	\$ 656,582	\$ 972
Accounts receivable-HUD		
Accounts receivable-tenants	17,290	
Allowance for doubtful accounts	(736)	
Mortgages receivable-current	3,627	
Investments-unrestricted	64,049	
Prepaid expenses	7,512	
Inventories	65,336	
Due from other programs	<u>138,799</u>	
Total current assets	<u>952,459</u>	<u>972</u>
Restricted cash		
Capital assets:		
Land	225,606	
Buildings	5,879,760	
Equipment	313,107	
Construction in progress	<u>261,485</u>	
	6,418,473	261,485
Less accumulated depreciation	<u>(2,608,890)</u>	
Net capital assets	<u>3,809,583</u>	<u>261,485</u>
Other assets:		
Mortgages receivable-noncurrent	<u>50,000</u>	
Total Assets	<u>\$ 4,812,042</u>	<u>\$ 262,457</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ 399,208	\$ 1,055,790
	972
	17,290
	(736)
	3,627
	64,049
	7,512
	65,336
	<u>138,799</u>
<u>399,208</u>	<u>1,352,639</u>
<u>31,529</u>	<u>31,529</u>
	225,606
	5,879,760
10,245	323,352
	<u>261,485</u>
10,245	6,690,203
(10,245)	<u>(2,619,135)</u>
	<u>4,071,068</u>
	<u>50,000</u>
<u>\$ 430,737</u>	<u>\$ 5,505,236</u>

MUSKEGON HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2006
=====

C-3013	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

LIABILITIES and NET ASSETS

Current liabilities:

Accounts payable	\$ 34,198	\$
Tenant security deposit liability	43,857	
Accrued expenses	6,047	
Deferred revenues	7,047	
Other current liabilities	5,635	
Due to other programs		<u>972</u>
Total current liabilities	96,784	972

Noncurrent liabilities:

Accrued compensated absences	<u>54,420</u>	
Total liabilities	<u>151,204</u>	<u>972</u>

Net Assets:

Invested in capital assets	3,809,583	261,485
Unrestricted net assets	<u>851,255</u>	
Total net assets	<u>4,660,838</u>	<u>261,485</u>
Total Liabilities and Net Assets	<u>\$4,812,042</u>	<u>\$ 262,457</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 34,198
	43,857
	6,047
	7,047
30,436	36,071
<u>137,827</u>	<u>138,799</u>
168,263	266,019
	<u>54,420</u>
<u>168,263</u>	<u>320,439</u>
	4,071,068
<u>262,474</u>	<u>1,113,729</u>
<u>262,474</u>	<u>5,184,797</u>
<u>\$ 430,737</u>	<u>\$ 5,505,236</u>

MUSKEGON HOUSING COMMISSION
COMBINING STATEMENT OF ACTIVITIES
Year Ended September 30, 2006
=====

	C-3013 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 330,287	\$
Nondwelling rent	<u>1,937</u>	<u> </u>
Total operating revenues	<u>332,224</u>	<u> </u>
OPERATING EXPENSES:		
Administration	261,979	
Tenant services	892	
Utilities	197,441	
Ordinary maintenance and operation	126,602	
Protective services	93,937	
General expenses	64,097	
Extraordinary maintenance	1,190	
Housing assistance payments		
Depreciation	<u>210,251</u>	<u> </u>
Total operating expenses	<u>956,389</u>	<u> </u>
Operating income(loss)	<u>(624,165)</u>	<u> </u>
NONOPERATING REVENUES:		
Investment interest income	33,891	
Other income	21,636	
Gain on sale of fixed assets	5,021	
Capital grants		254,615
Operating grants	<u>323,817</u>	<u> </u>
Total nonoperating revenues	<u>384,365</u>	<u>254,615</u>
Change in net assets	<u>(239,800)</u>	<u>254,615</u>
Prior period adjustments, equity transfers and correction of errors	646,008	(400,944)
Net assets, beginning	<u>4,254,630</u>	<u>407,814</u>
Net assets, ending	<u>\$4,660,838</u>	<u>\$261,485</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$ 330,287
	<u>1,937</u>
	<u>332,224</u>
181,490	443,469
	892
	197,441
17,676	144,278
	93,937
	64,097
	1,190
702,624	702,624
	<u>210,251</u>
<u>901,790</u>	<u>1,858,179</u>
(901,790)	(1,525,955)
7,856	41,747
	21,636
	5,021
	254,615
<u>937,999</u>	<u>1,261,816</u>
<u>945,855</u>	<u>1,584,835</u>
44,065	58,880
(268)	244,796
<u>218,677</u>	<u>4,881,121</u>
<u>\$ 262,474</u>	<u>\$ 5,184,797</u>

MUSKEGON HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
 Year Ended September 30, 2006
 =====

	C-3013 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 326,799	\$
Cash payments to other suppliers of goods and services	(511,925)	
Cash payments to employees for services	(187,118)	
Cash payments for in lieu of taxes	<u>(7,006)</u>	
Net cash (used) by operating activities	<u>(379,250)</u>	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Prior period adjustments	73,217	
Tenant security deposits	1,357	
Due from/to other funds	(116,657)	972
Operating grants	323,817	
Other revenue	<u>21,636</u>	
Net cash provided by noncapital financing activities	<u>303,370</u>	<u>972</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from mortgage payments	2,780	
Proceeds from sale of inventories	62,538	
Gain on sale of fixed assets	5,021	
Capital grants		260,513
Payments for capital acquisitions	<u>(32,181)</u>	<u>(261,485)</u>
Net cash provided(used) by capital and related financing activities	<u>38,158</u>	<u>(972)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Certificates of deposits increased	(2,029)	
Receipts of interest and dividends	<u>33,891</u>	
Net cash provided by investing activities	<u>31,862</u>	
Net increase(decrease) in cash	(5,860)	
Cash, beginning	<u>662,442</u>	
Cash, ending	<u>\$ 656,582</u>	<u>\$</u>

Housing Choice Vouchers 14.871	Totals
\$	\$ 326,799
(743,570)	(1,255,495)
(158,488)	(345,606)
	(7,006)
(902,058)	(1,281,308)
	73,217
	1,357
115,685	
937,999	1,261,816
	21,636
1,053,684	1,358,026
	2,780
	62,538
	5,021
	260,513
	(293,666)
	37,186
7,856	(2,029)
	41,747
7,856	39,718
159,482	153,622
271,255	933,697
\$ 430,737	\$ 1,087,319

MUSKEGON HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended September 30, 2006
=====

C-3013	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**RECONCILIATION OF CASH AND CASH
EQUIVALENTS PER STATEMENT OF CASH
FLOWS TO THE BALANCE SHEET:**

Cash	\$ 656,582	\$
Restricted cash	<u> </u>	<u> </u>
Cash and cash equivalents per balance sheet	<u>\$ 656,582</u>	<u>\$</u>

**SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:**

Operating income(loss)	\$ (624,165)	\$
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	210,251	
Bad debt allowance	521	
Adjustments	(5,521)	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	(4,620)	
Prepaid expenses	8,412	
Increase (decrease) in liabilities:		
Accrued compensated absences	28,585	
Accounts payable-PILOT	8,092	
Deferred revenues	<u>(805)</u>	
Net cash (used) by operating activities	<u>\$ (379,250)</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ 399,208	\$ 1,055,790
<u>31,529</u>	<u>31,529</u>
<u>\$ 430,737</u>	<u>\$ 1,087,319</u>
 \$(901,790)	 \$(1,525,955)
	210,251
	521
(268)	(5,789)
	(4,620)
	8,412
	28,585
	8,092
<u> </u>	<u>(805)</u>
<u>\$(902,058)</u>	<u>\$(1,281,308)</u>

MUSKEGON HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended September 30, 2006
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Major - Direct Program</u>		
2006	Low Rent Public Housing	14.850	\$ 323,817
	<u>Public and Indian Housing Nonmajor - Direct Program</u>		
2006	Capital Fund Program	14.872	254,615
	<u>Low Income Public Housing Major - Direct Program</u>		
2006	Housing Choice Vouchers	14.871	<u>937,999</u>
	Total		<u>\$1,516,431</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

MUSKEGON HOUSING COMMISSION
FINANCIAL DATA SCHEDULE
Year Ended September 30, 2006
=====

FDS Line Item No.		C-3013 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 656,582	\$
113	Cash-other restricted	<u> </u>	<u> </u>
100	Total cash	<u>656,582</u>	<u> </u>
	Receivables:		
122	A/R-HUD other projects		972
126	A/R-tenants-dwelling rents	17,290	
126.1	Allowance for doubtful accounts - dwelling rents	(736)	
127	Mortgages receivable-current	<u>3,627</u>	<u> </u>
120	Total receivables, net of allowance for doubtful accounts	<u>20,181</u>	<u>972</u>
	Current Investments:		
131	Investments-unrestricted	<u>64,049</u>	<u> </u>
	Other Current Assets:		
142	Prepaid expenses and other assets	7,512	
143	Inventories	65,336	
144	Interprogram due from	<u>138,799</u>	<u> </u>
	Total other current assets	<u>211,647</u>	<u> </u>
150	Total current assets	<u>952,459</u>	<u>972</u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	225,606	
162	Buildings	5,879,760	
163	Furn, equip & mach-dwellings	42,932	
164	Furn, equip & mach-admin.	270,175	
166	Accumulated depreciation	(2,608,890)	
167	Construction in progress	<u> </u>	<u>261,485</u>
160	Total fixed assets, net of accumulated depreciation	3,809,583	261,485
171	Mortgages receivable-noncurrent	<u>50,000</u>	<u> </u>
180	Total noncurrent assets	<u>3,859,583</u>	<u>261,485</u>
190	Total Assets	<u>\$ 4,812,042</u>	<u>\$262,457</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$ 399,208	\$ 1,055,790
<u>31,529</u>	<u>31,529</u>
<u>430,737</u>	<u>1,087,319</u>
	972
	17,290
	(736)
	<u>3,627</u>
	<u>21,153</u>
	<u>64,049</u>
	7,512
	65,336
	<u>138,799</u>
	<u>211,647</u>
<u>430,737</u>	<u>1,384,168</u>
	225,606
	5,879,760
	42,932
10,245	280,420
(10,245)	(2,619,135)
	<u>261,485</u>
	4,071,068
	<u>50,000</u>
	<u>4,121,068</u>
<u>\$ 430,737</u>	<u>\$ 5,505,236</u>

MUSKEGON HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended September 30, 2006
=====

FDS Line Item No.		C-3013 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS			
	Liabilities:		
	Current Liabilities:		
322	Accrued compensated absences	\$ 6,047	\$
333	Accounts payable-other government	34,198	
341	Tenant security deposits	43,857	
342	Deferred revenues	7,047	
345	Other current liabilities	5,635	
347	Interprogram due to	<u> </u>	<u>972</u>
310	Total current liabilities	96,784	972
	Noncurrent Liabilities:		
354	Accrued compensated absences	<u>54,420</u>	<u> </u>
300	Total liabilities	<u>151,204</u>	<u>972</u>
	Net Assets:		
508.1	Invested in capital assets	<u>3,809,583</u>	<u>261,485</u>
508	Total invested in capital assets	3,809,583	261,485
512.1	Unrestricted net assets	<u>851,255</u>	<u> </u>
513	Total Net Assets	<u>4,660,838</u>	<u>261,485</u>
600	Total Liabilities and Net Assets	<u>\$ 4,812,042</u>	<u>\$262,457</u>

Housing Choice Vouchers <u>14.871</u>	<u>Totals</u>
\$	\$
	6,047
	34,198
	43,857
	7,047
30,436	36,071
<u>137,827</u>	<u>138,799</u>
168,263	266,019
	<u>54,420</u>
<u>168,263</u>	<u>320,439</u>
	<u>4,071,068</u>
	4,071,068
<u>262,474</u>	<u>1,113,729</u>
<u>262,474</u>	<u>5,184,797</u>
<u>\$ 430,737</u>	<u>\$ 5,505,236</u>

MUSKEGON HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended September 30, 2006
=====

FDS Line Item No.		C-3013 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 330,287	\$
704	Tenant revenue-other	<u>1,937</u>	
705	Total tenant revenue	332,224	
706	HUD PHA grants	323,817	
706.1	Capital grants		254,615
711	Investment income-unrestricted	33,891	
715	Other revenue	21,636	
716	Gain on sale of fixed assets	<u>5,021</u>	
700	Total revenue	<u>716,589</u>	<u>254,615</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	102,786	
912	Auditing fees	2,524	
914	Compensated absences	30,868	
915	Employee benefit contributions-adm.	56,462	
916	Other operating-administrative	69,339	
	Tenant Services:		
922	Relocation costs	736	
923	Employee benefit contributions	156	
	Utilities:		
931	Water	28,379	
932	Electricity	105,319	
933	Gas	62,833	
938	Other utilities expense	910	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	31,919	
942	Ordinary maint & oper-mat'ls & other	20,217	
943	Ordinary maint & oper-contract costs	55,587	
945	Employee benefit contributions	18,879	
952	Protective services-other contract costs	<u>93,937</u>	
	General expenses:		
961	Insurance premiums	40,290	
962	Other general expenses	352	
963	Payments in lieu of taxes	15,098	
964	Bad debt-tenant rents	<u>8,357</u>	
969	Total operating expenses	<u>744,948</u>	

Housing Choice Vouchers 14.871	Totals
\$	\$ 330,287
	1,937
	332,224
937,999	1,261,816
	254,615
7,856	41,747
	21,636
	5,021
945,855	1,917,059

109,767	212,553
2,476	5,000
	30,868
48,721	105,183
20,526	89,865

736
156

28,379
105,319
62,833
910

12,263	44,182
	20,217
	55,587
5,413	24,292
	93,937

40,290
352
15,098
8,357

199,166	944,114
---------	---------

MUSKEGON HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2006
 =====

FDS Line Item No.		C-3013 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
970	Excess operating revenue over operating expenses	(28,359)	<u>254,615</u>
	Expenses continued:		
	Other expenses:		
972	Casualty losses-noncapitalized	1,190	
973	Housing assistance payments		
974	Depreciation expense	<u>210,251</u>	
	Total other expenses	<u>211,441</u>	
900	Total expenses	<u>956,389</u>	
1000	Excess (deficiency) of operating revenue over(under) expenses	(239,800)	254,615
1103	Beginning Net Assets	4,254,630	407,814
1104	Prior period adjustments, equity transfers and correction of errors	<u>646,008</u>	<u>(400,944)</u>
	Ending Net Assets	<u>\$ 4,660,838</u>	<u>\$261,485</u>

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
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**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Housing Commissioners
Muskegon Housing Commission
Muskegon, Michigan

I have audited the financial statements of the business-type activities of the Muskegon Housing Commission, Michigan, (Housing Commission) as of and for the year ended September 30, 2006, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated January 26, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated January 26, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Muskegon Housing Commission
Page Two

Compliance and Other Matters (continued)

could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Barry E. Sandell, CPA, PC

January 26, 2007

**Report on Compliance with Requirements
Applicable To Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Muskegon Housing Commission
Muskegon, Michigan

Compliance

I have audited the compliance of the Muskegon Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Muskegon Housing Commission
Page Two

Compliance (continued)

In my opinion, the Housing Commission complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2006.

Internal Control Over Compliance

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses. I have noted other matters involving the internal control over financial reporting that I have reported to management of the Housing Commission in a separate letter dated January 26, 2007.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Dan J. Jandell, CPA

January 26, 2007

MUSKEGON HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 September 30, 2006
 =====

A. Summary of Audit Results

Financial Statements

1. Type of Auditor's Report issued: Unqualified
2. Internal control over financial reporting:
 - a. Material weakness identified No
 - b. Reportable condition identified that is not a material weakness No
3. Noncompliance material to financial statements: No

Federal Awards

1. Internal control over major programs:
 - a. Material weakness identified No
 - b. Reportable condition that is not a material weakness No
2. Type of auditor's report issued on compliance for major programs Unqualified
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 No
4. Identification of major programs:

<u>CFDA Number</u>	<u>Federal Program</u>	<u>Amount Expended</u>	<u>Major Program</u>	<u>Compliance Requirement</u>	<u>Questioned Costs</u>	<u>Audit Finding</u>
14.850	Low Rent Public Housing	\$ 323,817	Yes	O	N/A	N/A
14.872	Capital Fund Program	254,615	No	O	N/A	N/A
14.871	Housing Choice Vouchers	<u>937,999</u>	Yes	O	N/A	N/A
	Total	<u>\$1,516,431</u>				

5. Dollar threshold used to distinguish between type A and type B programs \$300,000
6. Auditee qualified as low-risk auditee? Yes

MUSKEGON HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2006
=====

B.	Financial Statement Findings	None
C.	Federal Award Findings and Questioned Costs	None

MUSKEGON HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
September 30, 2006
=====

NONE

MUSKEGON HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
 SEPTEMBER 30, 2006
 =====

<u>Account Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
-----------------------	---------------------	--------------	---------------

LOW RENT PROGRAM:

	(1)		
1211	Prepaid insurance	\$ 7,512.45	
4510	Insurance premiums		\$ 1,855.20
4540	Employee benefit contributions		5,657.25
	To setup prepaid workmen's compensation and liability insurance.		

	(2)		
6000	Prior period adjustment	16,416.20	
4510	Insurance premiums		16,416.20
	To correct beginning (10/1/05) prepaid balance.		

Reclassifications

LINE NUMBER

945	Employee benefits	\$ 5,413.00	
942	Contract costs		\$ 5,413.00

CAPITAL FUND PROGRAM:

	(1)		
312	Accounts payable	\$ 972.00	
347	Interprogram due to		\$ 972.00

MUSKEGON HOUSING COMMISSION

INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

SEPTEMBER 30, 2006

MUSKEGON HOUSING COMMISSION
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SEPTEMBER 30, 2006

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**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Muskegon Housing Commission

I have audited the financial statements of the Muskegon Housing Commission ("Housing Commission") as of and for the year ended September 30, 2006, and have issued my report, thereon, dated January 26, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were two audit adjusting journal entries, but no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and our responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in my judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see adjusting entries on page 7).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There were no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - There were no difficulties encountered in performing the audit. The staff was very cooperative and helpful.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Sandy E. Anderson, CPA, PC

January 26, 2007

**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Muskegon Housing Commission

I have audited the financial statements of the Muskegon Housing Commission ("Housing Commission") as of and for the year ended September 30, 2006, and have issued my report, thereon, dated January 26, 2007. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed no material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to me by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, P.C.

January 26, 2007

MUSKEGON HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
September 30, 2006
=====

Housing Choice Voucher Program Tenant File Testing

We selected at random eight(8) tenant files to test. We looked for the following documentation in the files:

	<u># of Exceptions</u>
a. Form HUD-50058	0
b. Privacy Act Notice	0
c. Proper Verification of Income	0
d. Proper Verification of Expenses	0
e. Proper Verification of Assets	0
f. Inspection Report	0
g. Lease	0
h. Application	0
i. Copy of Photo I.D.	4
j. Copy of Proof of Social Security Number	1
k. Copy of Birth Certificate	0
l. Annual Review	0
m. Worksheet for HUD-50058	0
n. Notice of Rent Adjustment	0
o. Criminal Background Check	0
p. Declaration of 214 Status	3
q. Eviction for Drug Related Activity	0
r. Request for Tenancy Approval	1
s. Lead Based Paint Disclosure	0
t. Voucher	2
u. HAP Contract	0
v. HAP Tenancy Addendum	0
w. Authorization for the Release of Information	0
x. Rent Reasonableness Test	0
y. Inspection-Life Threatening Deficiencies	
corrected within 24 hours	0
z. Inspection-Deficiencies corrected within 30	
days/extension	1
aa. Proper action taken if y or z violated	0
bb. Proof of ownership	<u>7</u>
	<u>19</u>

Out of a possible 224, there were 19 exceptions from this test, i.e. a 8.5% exception rate.

The Section 8 manager started to correct the missing information in the tenant files and is in the process of obtaining proof of ownership from the landlord's. The exception rate was very low for this program.

Housing Choice Voucher Program Tenant File Testing (continued)

The following is a short summary of exceptions:

<u>File</u>	<u>Client</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>
1	B								x	
2	C								x	
3	E								x	
4	H						x			
5	P								x	
6	L									
7	W								x	
8	S								x	
Number of Hits		<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>6</u>	<u>0</u>
% of Hits		<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>12%</u>	<u>0%</u>	<u>75%</u>	<u>0%</u>

Legend

1. Criminal background check not conducted.
2. Check for eviction from Federal Housing not conducted.
3. Income/expense/asset verification not conducted or is incorrect.
4. Form HUD-50058 could not be located in the tenant file.
5. Release of Information/Privacy Act Notice not signed.
6. Social Security Number not verified with required documentation.
7. The Housing Commission could not locate the file.
8. The Housing Commission could not locate missing documents.
9. The tenant was not eligible to participate in the program.

MUSKEGON HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
September 30, 2006
=====

Low Rent Public Housing Program Tenant File Testing

We selected at random eight (8) tenant files to test. We looked for the following documentation in the files:

	<u># of Exceptions</u>
a. HUD-50058 Form	0
b. Privacy Act Notice	1
c. Proper Verification of Income	1
d. Proper Verification of Expenses	0
e. Proper Verification of Assets	1
f. Inspection Report	0
g. Lease	0
h. Application	1
i. Picture I.D.	2
j. Proof of Social Security Number	1
k. Birth Certificate	2
l. Annual Review	1
m. Tenant Worksheet	0
n. Notice of Rent Adjustment	0
o. Criminal Background Check	0
p. Declaration of 214 Status (citizenship)	0
q. Eviction for Drug Related Activity	0
r. Income/Flat Rent Choice Form	0
s. Lead Based Paint Disclosure	0
t. Authorization for Release of Information	1
u. Inspection-Life threatening deficiencies corrected in 24 hours	0
v. Inspection-Deficiencies correct in 30 days/ Extension	0
w. Proper Action taken if H or V violated	<u>0</u>
	<u>11</u>

Out a possible 184, there were 11 exceptions from this test, i.e. a 6.0% exception rate.

The Public Housing Resident Affairs Specialist started to correct the missing information in the tenant files before the audit was concluded. It is recommended that the process be continued to completion. The exception rate was very low in this program.

MUSKEGON HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
 September 30, 2006
 =====

Low Rent Public Housing Program Tenant File Testing (continued)

The following is a short summary of exceptions:

<u>File</u>	<u>Client</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>
1	B								x	
2	D									
3	J									
4	G			x						
5	M								x	
6	O								x	
7	S			x		x	x		x	
8	W									
Number of Hits		<u>0</u>	<u>0</u>	<u>2</u>	<u>0</u>	<u>1</u>	<u>1</u>	<u>0</u>	<u>4</u>	<u>0</u>
% of Hits		<u>0%</u>	<u>0%</u>	<u>25%</u>	<u>0%</u>	<u>12%</u>	<u>12%</u>	<u>0%</u>	<u>50%</u>	<u>0%</u>

Legend

1. Criminal Background check not conducted.
2. Check for eviction form Federal Housing not conducted.
3. Income/expense/asset verification not conducted, or is incorrect.
4. Form HUD-50058 could not be located in the tenant file.
5. Release of Information/Privacy Act Notice not signed.
6. Social Security Number not verified with required documentation.
7. The Housing Commission could not locate the file.
8. The Housing Commission could not locate missing documents or they were incomplete or incorrect.
9. The tenant was not eligible to participate in the program.

MUSKEGON HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
September 30, 2006
=====

Waiting List

We tested the Housing Commission procedures for selecting tenants from the Public Housing Low Rent Program waiting list. Of the six(6) tenants tested, we were able to determine that five(5) were chosen correctly from the waiting list. It was, however, difficult to determine this from the documentation, despite the amount of documentation.

We recommend that a new procedure be developed and use to clearly document that tenants were selected from the waiting list correctly. One method, would be to place a waiting list in their file that shows that they were at the top, or explains why the applicants on the waiting list above them were not selected before they were.

Tenant Services Expenditures

HUD provides \$25 per tenant in the operating subsidy for the Housing Commission to spend on the tenants. The Housing Commission has a resident council to determine where to best spend the money, but the trial balance showed only \$892 spent, this compares to the subsidy of \$4,175.

We recommend that the Housing Commission classify any expenditures related to tenant services to that account, or be sure that the money is spent on tenant services in the future.

Petty Cash

The trial balance show \$102 in petty cash, when in fact there is not a petty cash fund.

We recommend that the fee accountant be notified to eliminate this account.

MUSKEGON HOUSING COMMISSION

ADJUSTING JOURNAL ENTRIES

September 30, 2006

=====

<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
LOW RENT PROGRAM			
	(1)		
1211	Prepaid insurance	\$ 7,512.45	
4510	Insurance premiums		\$ 1,855.20
4540	Employee benefit contributions		5,657.25
	To setup prepaid workmen's compensation and liability insurance.		
	(2)		
6000	Prior period adjustment	16,416.20	
4510	Insurance premiums		16,416.20
	To correct beginning (10/1/05) prepaid balance.		